THE RISK THEORY OF PROFIT.

WISHING to direct attention to what I believed to be the true theory of profit and loss, I ventured, some time ago, to employ this theory in the pages of this review as a basis for criticising *Kapital und Kapitalzins.* It seemed to me that economists, almost without exception, had been treating economic questions as problems of three forces,— land, capital, and labor,— whereas they are really problems of four forces,— land, capital, labor, and enterprise, or risk-taking. The theory of capital and interest advanced by Professor Bohm-Bawerk happened to illustrate with peculiar force the inadequacy of views obtained in disregard of the factor "enterprise"; and it was for this reason that I selected it for criticism.

Professor J. B. Clark, in his article on "Insurance and Business Profit," published in the October issue of this review, is kind enough to say that Professor Mangoldt* of Germany and I "have reached one conclusion which cannot be overthrown"; namely, "To every industry, and therefore to society as a whole, there accrues each year an accession of wealth that is the offset for perils encountered. Business repays men, not only for their labors, but for their fears." Indorsement from so distinguished a source is exceedingly gratifying, and entitles me to hope that the main part of what I contended for has been duly established. For, if a net income, considerable in its aggregate amount, naturally arises from the assumption of risks, there is no question of its differing materially in its nature, and in the tendencies, or laws, which govern its

*Professor Mangoldt, I am told, had to some extent anticipated me; but, as I am wholly unacquainted with his writings, I do not know how close the agreement between us is.

fluctuations and amount, from either rent, wages, or interest, and also from profit, as understood by Professor Clark. And these four kinds of income are the only ones hitherto recognized as homogeneous. Whether the reward for the assumption of risk accrues to the man of business as a capitalist or as an entrepreneur is an important point yet to be settled; but, however this peculiar income is finally classed, it will remain true that a form of industrial reward considerable in its aggregate, and flowing from a source of its own and radically distinct from any and all forms of income hitherto recognized, has been pointed out. And some additions to our knowledge can surely be expected when such a factor is accorded its proper place in economic theory.

This newly recognized form of income I have identified with what has hitherto been somewhat blindly spoken of as the "profit of the entrepreneur." That the income of the entrepreneur is peculiar has been sufficiently recognized; but its peculiarity has been generally supposed to lie in the combination of its component parts rather than in any radical difference. Wages of management, interest, insurance, and the gains of monopoly have all been looked upon, either singly or in various combinations, as the constituents of profit. The risk theory denies that any of them, with the *quasi*-exception of the latter, are such constituents, and claims profit to be an homogeneous form of income, with a distinct and peculiar source of its own; namely, the circumstance that industrial risks will not be assumed without the expectation of a compensation in excess of the actuarial value of the risk.

Here, however, Professor Clark dissents. Acknowledging that the reward of risk-carrying exists, and has hitherto escaped recognition, and that it constitutes a peculiar form of income, he refuses to accompany me in identifying it with profit, and claims that the reward of enterprise inures to the capitalist as such, and not to the entrepreneur as

such, thus making the capitalist unique among producers, in that he alone enjoys two quite distinct forms of income, the one springing from the use and the other from the venturing of his capital, but both accruing to him in his peculiar industrial function. These conclusions are reached by means of the application of the subjective theory of value; and the train of reasoning is a very acute and interesting one, and constitutes a valid and original contribution to the theory of risk. Nevertheless, I cannot but think that the very uniqueness of the result is calculated to raise a doubt as to the sufficiency of the analysis by means of which it has been reached. It is not, of course, impossible that the exercise of a single function may be followed by two or more distinguishable classes of results. But it appears to me, as an axiom of scientific method, that two *radically* distinct classes of results shall not be ascribed to the same function as their source. The question of course arises whether the distinction between interest and the reward for risk is really a radical one, and this is a question which can only be answered after a fuller consideration of the subject.

According to Professor Clark, if I rightly comprehend him, we have in economics a problem of four forces, producing five distinct classes of results,— land yielding rent, labor yielding wages, capital yielding interest and the reward for risk, and co-ordination (if he will allow me to so name the force) yielding profit. Or, if Professor Clark adopts the more common, and what appears to me the more logical opinion, that co-ordination, though the highest form of it, is yet only a variety of the industrial force we generalize as labor, he must conceive of economics as a problem of three forces, but productive of four instead of three distinct classes of results.

Taking it for granted that my readers are familiar with Professor Clark's article, I will ask them to bear in mind that he and I go together up to the point of asserting

that the "true actuarial value of the [subjective] risk incurred" marks the limit below which the risk will not be knowingly assumed. Moreover, I fully agree with him that men of business, acting as entrepreneurs, receive more than this, though I find myself unable to follow him when he claims that this extra compensation is the real and only constituent of the entrepreneur's income. If I comprehend him rightly, his conception of the matter is as follows: —

After rent, wages, and pure interest (*i.e.*, what is paid for the mere use of capital, the lender being absolutely guaranteed against loss) are paid out of the product, a further *definite* payment or charge is made to compensate the owner of capital for the risk the capital is subjected to before the residue, which is the real profit, is appropriated by the entrepreneur. That this remuneration for risk, exacted by the capitalist as such, is always *based on the subjective value of the risk to him*, and is charged for as nearly to that amount as can be calculated. The entrepreneur, as such, receives the amount merely as the agent of the capitalist, and pays it over to him. It is one of the elements in the cost of his product; and his own remuneration is not attainable until this as well as all other elements of cost have been satisfied.

According to Professor Clark, the entrepreneur is simply "the man who co-ordinates capital and labor, without in his own proper capacity furnishing either of them." If he assumes any risk, he does it in his capacity of capitalist, and not as an entrepreneur. Professor Clark further says that "the hazard of the business falls on the capitalist. The entrepreneur, as such, is empty-handed. No man can carry a risk who has nothing to lose. If the business goes to ruin, it is the furnisher of the capital who suffers; and it is he who, at the outset, counts on an offset for the danger. In the course of business he gets the offset: he receives the actuarial value of risk of personal

harm to which he subjects himself. He gets this sum as a part of his gross interest. The entrepreneur pays it as a part of his costs. To the one the reward of risk is an income: to the other it is an outgo that must be submitted to *before he can become the complete owner of the product** that he is to put on the market. If there is a true profit in the case, it comes after this demand has been met."

Now, I fully agree with Professor Clark that any proposed theory of profit must stand the test of its being shown unequivocally, that profit as defined by said theory, coincides with the residuum of the product after all the costs have been defrayed. If the reward for risking is a cost, it is not a profit. Here, however, I think I am entitled to a caveat against his use of the term "cost." Without at all attacking the theory of subjective value, or even impugning its great theoretical importance, I cannot see how the subjective value we place upon any of our possessions, or upon any of our exertions or sacrifices, has anything to do with their cost to us. The economic cost of anything is simply the amount of purchasing power we forego to obtain it. There is, at least, no other basis than this on which the cost, comparable with selling price, is calculable. The cost of his product to an entrepreneur, and its cost to society, are two very different things. Society, represented here by the final purchaser or consumer, must pay a price which includes not only a remuneration for the subjective value of the risk involved in production, but any other individual profit or monopoly gain which is obtained. Both these sums are just as much elements of the social cost as rent, wages, or interest. In any analysis of the product in which profit is to be determined by the method of residuals, the costs contemplated are manifestly only such as are sacrifices of purchasing power to the individual entrepreneur.

Now, I cannot follow Professor Clark in his apparent

* The Italics are mine.

assumption that a risk run is a cost to the entrepreneur, simply because its subjective value to him or to his capitalist can be computed. To my mind it cannot become such until one of two things happens, and the happening of either of these things marks the limit to the exercise of the entrepreneur function. Either a loss must have actually resulted or the danger of an apprehended loss must have been positively insured against. The subjective distress, the care and anxiety undergone by the manufacturer, who carries his own insurance, cannot be reckoned as any part of the cost to him of conducting his business. If no loss occurs, the *residue of the product* which he appropriates to himself is increased by the exact amount of the saved premiums. If a loss does occur it becomes at once an element in the cost of his product to him, and wipes out a part or the whole of his profits, and perhaps a portion of his capital besides. When an entrepreneur decides to lessen his risks by insuring some of them, the amount paid, or engaged to be paid, in premiums does become an element of cost; but just to the same extent does he abdicate his peculiar industrial function. For it is manifest that an entrepreneur who should eliminate all his risks by means of insurance would have left no income at all which was not resolvable into wages of management and monopoly gains.

Again, what is the special peculiarity of every business risk? It is surely no other than the uncertainty of how the selling price of an unsold product will compare with the cost, or how the cost of an unfinished product will compare with its selling price, if the latter has been agreed upon. Now, just in proportion as these uncertainties are provided against beforehand by insurance or by any other means, so that they are transferred from the co-ordinator's shoulders to the shoulders of others, is the residue of the product whittled down; and, when they are all transferred, there is no residue at all left for the co-ordi-

nator. For it must not be forgotten that the case, where the entrepreneur does not risk his own wages of management, is even rarer than the case where he puts none of his own capital at risk; and it is impossible to regard a man who does neither of these things as an entrepreneur at all, for the only possible escape from the latter risk is for the co-ordinator to become a salaried officer. Even the broker who works for a fixed brokerage, and guarantees neither of his principals, puts his own wages of management at stake, and, therefore, a certain part of his emoluments come to him as a reward for risk; and the same principle applies to all professional men working for fees, and partly explains why the reward they get is larger than that obtained by men of equal abilities working for fixed wages. But the president of a corporation paid by a salary is in the receipt of wages, not profits. The residue of the product goes to the stockholders, who risk their capital, but who have hired the president to co-ordinate for them. To my mind, at least, the circumstance that no single concrete example can be cited in which the entire elimination of risk is not coincident with the elimination of the residue of the product is conclusive of the element of risk being the fundamental characteristic of the entrepreneur function.

When risk, because it has been insured becomes an element of cost, it must of course cease to act as a basis for profit to the person who has transferred it. But a risk is not eliminated by being insured against. All that is effected in this way is to transfer the risk; and the party who assumes it does not, as Professor Clark seems to assert, assume it for a definite and predetermined reward, but looks to a residue for his remuneration.* The only

* Thus the buyer of commercial paper who exacts 4 per cent. above pure interest to cover the risk involved, when he computes the actuarial value of the risk at 2 per cent., never figures up his profit at the remaining 2 per cent. That is only the *probable average* of his pure profit, or reward for risk, on a number of similar transactions. His actual reward for taking any special risk

difference is this: that, whereas before both the cost and selling price were uncertain elements to the insured, he now fixes the cost, or some of the elements of cost, by insuring, and the insurer assumes this uncertainty for a fixed price. Of the two indeterminate quantities, each party fixes one and leaves the other undetermined; but the risk, though now divided, remains, and finds its divided reward in the residue divided between the insured and the insurer. The reward for risk is, therefore, just as much a residue in the one case as in the other.

I have already stated that I agree with Professor Clark that the entrepreneur often, and even generally, both demands and receives a remuneration in excess of what he calculates the subjective value of the risk to be. I have also stated that this excess, which Professor Clark believes to be the only constituent of pure profit, is, in my view, only an augmentation of pure profit, an additional reward for undergoing risk. There will naturally arise in the mind of the reader this objection: that there cannot be two distinct residues of the same product, that the subjective value of the risk and the excess over it are too dissimilar to come under the same head, and that, as the subjective value is at least capable of computation, while the excess over it necessarily remains uncertain until the complete ending of the productive process (*i.e.*, the final delivery and sale of the product), this excess can alone be looked upon as residual.

It might indeed be claimed that this excess, being due, as we shall see, to exceptional facilities, can be calculated and charged for, as happens sometimes when the co-ordinator is a salaried officer, or when a royalty is paid, and is therefore as capable of predetermination as the subjective value

is always uncertain until the completion of the transaction. Then, if he be paid back in full, his reward is not 2 per cent., but 4 per cent. If he is not paid back in full, it is 4 per cent. less the deficiency. His reward for risk is always the difference between what he pays out and what he gets back, and is not the definite sum paid him for assuming the risk.

of the reward for risk. But the best answer is that all other forms of income are made up of two equally dissimilar parts. This can, I think, be made plain by a consideration of the principles governing monopoly gains. Why is it that a common laborer, who, if he could get no more than fifty cents a day, would still go on working and raise a family, is able to demand and obtain a dollar a day? It is simply because the product in which his day's labor is co-ordinated is sufficient to afford the ordinary interest to the capitalist, its quota of rent to the landlord, and a satisfactory profit to his employer, after paying a dollar a day to him. If population should increase sufficiently, the time would eventually arrive in which the lessened product of a day's labor would afford him only fifty cents a day; and, then, that is all he could get. Consequently, all that laborers get above the subjective value of their labor to themselves may be looked upon as a monopoly gain, due to there not being so many laborers in existence as the earth is able to yield a bare living to. And the same principle applies to the large wages received by skilled laborers who enjoy a class monopoly over their fellows.

So with capital, which in the great centres of trade is freely loaned at 2 to 3 per cent. on perfect security, and at 4 to 5 per cent. on first-class bond and mortgage, while in undeveloped communities the rate on equally secure bond and mortgage may be as high as 10 or 12 per cent. Bond and mortgage investments demand a certain amount of personal attention, which circumstance causes a dislike to distant investments of that sort. This leads to a friction in the movement of capital that gives capitalists resident in frontier towns, and capitalists with less than the average objection to distant investments, a sort of monopoly, so that, after allowing for the subjective value of the risk, they get several times the rate of pure interest obtained for capital employed in the great centres of trade.

This difference in the rate of gross interest is not indeed wholly pure interest; but it is very largely such, as is shown by the fact that in frontier communities the most perfect security fails to attract local capital unless a very high rate of interest is paid.

The rent of land differs from wages and interest in that it is all a monopoly gain. That is, the use of land has in itself no subjective value not due to advantages which are special. This discrepancy, however, need not detain us, as it does not militate against the principle here contended for, which is this: that the reward obtainable for the exercise of any productive force is not the cost of such exercise, computed in terms of its subjective value, to the controller of the productive force, as Professor Clark seems to claim, and as would perhaps be the case if competition was ideally frictionless and perfect, but a sum in most cases greater than this, by such amount as is due to special facilities in the possession of the controller of the industrial force. That is to say, every man exacts, as a reward for his labor or for the use of his capital or for assuming a risk, all that industrial conditions enable him to get, however much such amount is in excess of the cost of his labor, use of capital, or risk computed at their subjective values to himself.

The great source of monopoly profit is to be found in the fact that the actual risk of any given undertaking is not the same for different entrepreneurs, owing to differences among them in ability and environment. Men are never determined in their choice of risks solely by the subjective value to themselves. They have always the choice of a number of undertakings; and they invariably select those for which they consider themselves to possess special advantages,— those, that is, which promise them the most monopoly gain. The special undertaking selected is necessarily one that will not yield so large a monopoly gain to others not already in the business, for, if it did,

the business would soon be overcrowded and the monopoly gain destroyed by competition. It is, therefore, the subjective value of the risk to the possible competitor who comes nearest to undertaking it, but is finally deterred, and not the actual risk-taker's subjective valuation of the risk, which determines the reward that will be exacted for its assumption.

The special advantages which enable an entrepreneur to obtain monopoly profits may be artificial, accidental, or personal. Thus a patent right is an artificial advantage; an inherited good will, an exceptionally favorable situation or environment, an accidental advantage; and a trade secret, a special training, or extraordinary executive ability, a personal advantage. But the principle is the same in all. The number of persons possessed in like degree of special advantages for any particular kind of enterprise being limited, entrepreneurs will refuse to assume risks at their subjective valuation to themselves, so long as risks exist which promise them more than this. It would seem from the above considerations that the special part of a business man's income, which Professor Clark wishes us to consider as "pure profits," is really only such a monopoly gain as attaches itself to all forms of income.

This conclusion seems to become even more imperative when we apply the test of profit insisted on by Professor Clark himself, that it shall coincide with the residue of the product after all costs to the entrepreneur are satisfied. The monopoly gain of the entrepreneur is certainly not a cost; and it is, therefore, without question, a part at least of the residue. But if, as I have elsewhere endeavored to show, it is the loss itself when suffered, or an actual payment for insurance against loss, and not the merely estimated but uninsured risk of loss, which is an element of cost, the reward for risk is necessarily a residue also; for, being inseparable from the ownership of the

product, its actual amount cannot be determined any more than the amount of monopoly gain involved until the product is finally parted with. The reward for risk retained and the monopoly gain attached to it are therefore inseparable by any analysis founded upon cost to the producer, and are both entitled to be considered as profit, if profit is really the residue left after cost is satisfied. This particular monopoly gain differs from other monopoly gains at the precise point where the reward for risk is differentiated from other forms of income. The monopoly gains that are elements of wages, rent, and interest, are predetermined and enter into the cost of the product, whereas neither a monopoly profit nor the reward for retained risk are predetermined; and both of them are included in the excess of the selling price over cost, and the one as well as the other vanishes when cost equals selling price, and becomes a minus quantity when cost exceeds selling price. There is, therefore, just the intimate connection between reward for risk and monopoly profit that we should expect to find if the latter is merely an augmentation of the former, due to exceptional circumstances, and not radically distinct from it.

Moreover, is Professor Clark quite correct in asserting that "it goes without saying that the hazard of business falls on the capitalist"? In my criticism of *Kapital und Kapitalzins* I called attention to the fact that other things can be risked, and that, as a consequence of such risking, a residue above purchasing power foregone, or a profit, can be obtained. Thus a laborer, who, fishing for himself, might occasionally earn five dollars on a lucky day, and nothing at all on an unlucky one, but who was pretty sure of earning a dollar and a half a day on the average, would nevertheless gladly accept steady employment at a dollar and a quarter a day. How often a promising young man, without any capital, is "taken into the firm," and given a share of the profits in place of the salary

he was earning; and it is always expected that, one year with another, he will earn more than his former salary.* And yet what both the self-employing laborer and the *quondam* clerk risk is not their capital,—for they have none to venture,—but their unexpended labor. Again, the risk of a change in its value is inseparable from the ownership of land. And, although in a prosperous country the general tendency is for land to increase in value, there is always a chance of any particular property depreciating. Consequently, the return from land, though small relatively to most forms of investment, must contain an element of reward for risk, and is, as a matter of experience, greater than that of a perfectly secure investment. But here it is not capital, but land, that is risked. Now, it is perfectly true that the reward for risk in these cases would be sometimes spoken of as part of the self-employed laborer's wages in the one case and part of the landlord's rental in the other. In the case of the clerk, it would hardly be so considered by anybody. Neither, I think, would the income of the self-employed laborer be regarded as wholly wages by any one striving for precise expression. The case of the landlord is perhaps more obscure; but, if we consider his ownership of the land as a whole, including the buying and selling of it, everybody must recognize that he has made a profit or a loss, according as the transaction has turned out, when compared with an investment of the purchase money on perfect security. Of course, no one can run the risk of a loss who has nothing to lose; and probably ninety per cent. of what is risked is capital. The fact that there are some exceptions is, however, of real theoretic importance, as tending to show that the ability to incur risk is not a function peculiar to the capitalist as a capitalist.

* There is even the risking of so unsubstantial a thing as reputation, which can serve as the basis of business profit, as is shown by the normal rate of profit being higher in disreputable industries, such as liquor-selling, than in other occupations.

Another possible contingency is also to be noted in this connection. It sometimes happens that the entrepreneur, while possessed of capital out of which the losses incurred in a given enterprise must ultimately be met, nevertheless employs no capital of his own in the undertaking, being able to borrow all that is needed to carry it on. From which it would seem to follow that capital not employed at all in that particular business can yet be a productive factor in it, and entitled to a share of its product.

I must also venture to object to Professor Clark's definition of the entrepreneur as "the man who co-ordinates capital and labor without, in his own proper capacity, furnishing either of them." All that labor accomplishes is to move things. When the things moved do not thereby become wealth, the result is a service. When they are already wealth, and remain so, or become such by being moved or adjusted, the result is a commodity. But all commodities held for sale or to aid in the production of other commodities are capital. The laborer, then, can be defined as he who co-ordinates his own labor with things, and, when these things are or become capital, as one who co-ordinates his own labor with capital. Then, according to Professor Clark's definition, the only distinction between the ordinary laborer and the entrepreneur is that the one co-ordinates his own labor, and the other the labor of others. How, then, does the mere foreman differ from the entrepreneur? He certainly "co-ordinates labor and capital without in his own proper capacity furnishing either of them" any more than the entrepreneur does. Surely, it is his interest, or ownership, in the product, and not his being a co-ordinator, which is the distinguishing characteristic of the entrepreneur. The receiver of profit is accustomed to abdicate a part and sometimes all of the co-ordinating function to salaried employees without relinquishing his right to any but a small portion of the residue. In another part of his article Professor Clark

himself asserts *that the ownership of the product remains with the entrepreneur to the very last*, even after the subjective value of the risk has been computed and allowed for. *But, if the ownership remains, the risk remains: the two are inseparable.* The capitalist has been defined as the man without any capital in his own possession, but rich in claims on capital in the possession of others. The entrepreneur class could be equally well defined as the actual possessor of all capital, subject to a mortgage to the full amount of its actual cost,— that is, for its full value, —less the residue which is to constitute their peculiar industrial reward. Now, it is just the actual possession and control of property, which is excluded by the definition from the functions of the capitalist, which renders putting it at risk possible. That the capitalist, when he makes his loan, is able to exact a reward for the risk he runs, is due to the fact that the property is then in his personal possession or control. It is of the very essence of a loan that the lender, in parting with his property, makes over to the borrower the opportunity of hazarding it.

Lastly, a word remains to be said in reference to the gains of monopoly. Professor Clark, if we understand him correctly, is disposed to regard these gains, when accruing to the entrepreneur, as identical with profit, and as a form of income fundamentally distinct from and ranking with rent, interest, and wages. If, however, I am correct in my view of the matter, the landlord, the laborer, and the capitalist all enjoy incomes, part of which is similarly due to the friction or insufficiency of competition.* If all kinds of income are augmented by monopoly, Professor Clark's objection to regarding profit as

* These additions to the income of each class are acquired, of course, at the expense of the other classes, so that to some extent they counterbalance and offset each other. The total product of the world being more than enough to barely sustain all classes of producers, the excess is divided among them in proportion to their control of exceptional advantages of one kind or another.

based upon risk indeed falls to the ground; but a certain inconsistency, in my view of the matter, seems to arise in that I attribute to only four industrial forces — land, labor, capital, and enterprise — five distinct classes of results,— namely, rent, wages, interest, profit, and monopoly gains. Is it enough to notice that each of the four productive forces obtains a share of this fifth and unclassed kind of results? Or ought we to add to our catalogue of industrial forces a fifth, to which some such name as "special opportunity" might be given? The reader has, of course, observed that I have not done this, but have treated "special opportunity" as a merely auxiliary, or secondary, industrial force. And I have taken this view of the matter, because monopoly is clearly not a productive force at all, but merely a distributive one. It is not, therefore, entitled to rank with the real productive forces, land, labor, capital, and enterprise; nor can monopoly gains be rightly regarded as a distinct form of income, except when the monopoly is formed upon the limitations of nature, in which case the force itself becomes identical with "land," and the resulting monopoly gains with "rent." This is readily perceived of the special opportunities affecting labor and capital, and the monopoly gains that under certain circumstances serve to augment wages and interest. Bnt it has not been so evident of the entrepreneur and his special income, mainly for the reason that his peculiar function and the nature of his reward have escaped analysis.* Accordingly, those economists who have given the most intelligent attention to the subject have agreed with Professor Clark in regarding the monopolistic gain, which is really only an augmentation of the entrepreneur's income, as its only constituent. President Walker, for instance, who has

* Or, in other words, because the nature of the income, augmented by the monopoly gain of the entrepreneur, was not understood, or, rather, because the very existence of such an income had escaped notice.

made such valuable contributions to the theory of profit, takes this view of the matter. The economic domain of the theory of rent is coextensive with the existence of special opportunities, and his application of this theory to the theory of profit implies that the whole gain of the entrepreneur is based upon his monopoly of business ability. Nevertheless, President Walker makes it very evident that he regards the entrepreneur as a producer, which he manifestly is not, if we look upon him wholly as the possessor of special opportunities and abilities. That he is not an original producer is very plain, when his special opportunity is an artificial one, such as the possession of a patent or copyright. There is a sense in which the idea that has been patented is productive, though it is not the sense in which labor and capital are so spoken of; but preventing others from utilizing the patented idea is not socially productive in any sense of the word, although it may enable the preventer to obtain a large fortune for himself. The like is true of a trade secret, to divulge which would lead to an increase rather than a diminution of production, though it would no longer yield a monopolistic gain to its retainer. Its *retention as a secret* is not productive, but only distributive in its effects.

Now, what does the personal business ability, which President Walker regards as so pre-eminently productive, consist in but the possession of a knowledge of how to do things better than one's competitors,— the possession, in other words, of numberless trade secrets. It is the *retention* of these numberless trade secrets that enables the successful man of business to get ahead of his fellows. If he should disseminate this knowledge among his competitors, teach them his business habits and principles, the aggregate income of the community would be augmented vastly more than his own income would be diminished. I am not saying that the possessor of novel ideas and spe-

cial knowledge has no moral right to withhold them from the community, and to found a monopoly upon them for his own enrichment. All that I am claiming is that it is the ideas and special abilities themselves, and not the monopoly of them, which are socially productive, and that, when such ideas and abilities become common,— when, that is, they cease to be monopolized,— they no longer yield individual incomes as they should do to entitle them to be classed as a productive force. But, if this be so, profit, as understood by Professor Clark and President Walker, is not a form of income that arises from the exercise of a productive force; and the entrepreneur is not to be ranked as a producer, alongside of the landlord, the laborer, the capitalist, and the risk-taker. That, in fact, the entrepreneur is entitled to rank as such a producer, and a very important one at that, will hardly be disputed. But, if this be granted, those who object to his being considered as fundamentally the risk-taker are placed in the dilemma of being under obligations to show that his peculiar income of profit is neither a form of wages, on the one hand, nor the result of distributive rather than productive industrial forces, on the other.

Nor must it be too hastily assumed that an analogy holds here between the case of the landlord and the receiver of monopoly profits. The resemblance between these two forms of gain is indeed very close; but it is no closer than that between rent and monopoly wages or between rent and monopoly interest, and it is lacking in the one essential point which enables us to affirm that the form of monopoly gain known as rent is entitled to rank, as a fundamentally distinct form of income, alongside of wages, interest, and profit, while a monopoly profit is not entitled to any such distinction. There is such a thing as no rent land. But there are no such things as no wage labor, or no interest capital, or no profit enterprise. A state of society can be imagined of which this would not be

true. If the land-owners of an isolated community should combine among themselves, it would be easily within their power to exact more than what is now known as the economic rent. This sum, whatever form it took, would constitute an income radically different from wages, interest, or profit. It would still be rent; and the monopoly gain, due to differences in the quality of different plots of land, which is now spoken of as "economic rent," would attach itself to it as an increment, just as other monopoly gains attach themselves to the forms of income on which they are based. But, as in the absence of combination the powers of nature are free, while land itself is nevertheless held as private property, the monopoly gain called rent can exist independently. This is not the case, however, with other monopoly gains, as it is evident that superior skill and opportunity would yield no increase of wages to a man who did not work, that the frontier capitalist who hoarded his wealth would get no monopoly interest, and that the exceptionally able or fortunate business man, who refused to take any chances, would get no monopoly profit. Moreover, if land was not private property, but held in common as the Indians held their hunting-grounds, the form of income known as rent would disappear. Monopoly gains would still arise from the same special advantages that now yield rent, but they would attach themselves to wages. Thus the Indian hunter, who knew best where to look for game, would possess an advantage over the rest of his tribe similar to any other knowledge or aptitude that makes a man efficient as a laborer; *i.e*, the advantage would be one yielding monopoly wages. But, if he should find means to appropriate the exclusive possession of the best localities for game, he could rent the hunting over them to others, and live on the proceeds, without laboring himself. His income would not then be wages, but rent; and, if he elected to reserve his hunting-grounds for his own use,

and refuse to hire them to others, his income would be part wages and part rent.

To recapitulate, the objections which I have ventured to raise to Professor Clark's analysis are these: —

First, the distinguishing peculiarity of the entrepreneur is not that he is a co-ordinator, but is to be found in his ownership of the product.

Secondly, as the ownership of the product (or, what is the same thing, an undetermined cost) implies that the continuance of risk and the indetermination of the amount of the residue are always co-existent, the residue of the product must constitute the reward for risk, and the only possible inducement to incur risk.

Thirdly, that the mere calculation of the subjective value of a risk does not make such value a constituent of cost,— to become a cost, the anticipated loss must be actually suffered or the risk itself transferred to another with a consideration; that such a transfer is simply the division between two undertakers, both of the risk itself and of the residue of the product, which is its reward; and that the insurer of a risk, despite his receiving a specified sum for taking it upon himself, nevertheless looks to a residue for his remuneration.

Fourthly, no one ever assumes a risk for a consideration only equal to its subjective value to himself, when he can get more for doing it. His subjective valuation marks the limit below which his anticipations of reward will not go; but the amount he will exact is really determined by the subjective valuation his would-be competitor, just deterred from assuming the same risk, places upon it, allowance being made for the special facilities possessed by each.

Fifthly, that the excess afforded by the residue over the undertaker's subjective valuation of his risk is a monopoly gain and a part of the profit of the entrepreneur, but is

not a fundamentally distinct form of income, being only an increment or augmentation of the reward for risk, because the influence of monopoly is distributive rather than productive.

Sixthly, that not only such things as have present value and are capital can be risked, but also things of present value that are not capital, such as land, and things of only prospective value, such as wages, salaries, and interest yet to be earned, and even reputation. Industrial venturing is not, therefore, the peculiar and exclusive function of the capitalist; and, even when capital is ventured, the venturing of it is a function of its actual possessor, the entrepreneur, and not of the mere claimant, which the capitalist is.

Seventhly, that enterprise, or risk-taking, is to be ranked, along with land, labor, and capital, as one of the four fundamental divisions of the productive forces, and profit, its reward, is to be classed with rent, wages, and interest as one of the four radically distinct forms of income.

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